

LABOR TRAINING AND MODERNIZATION PROGRAM

(DR-0134)

EXECUTIVE SUMMARY

Borrower and guarantor:	Government of the Dominican Republic	
Executing agency:	Ministry of Labor (SET)	
Amount and source:	IDB:(OC/100% IFF)	US\$16.9 million
	Local counterpart funding:	US\$ 4.2 million
	Total:	US\$21.1 million
Financial terms and conditions:	Amortization period:	25years
	Disbursement period:	4.5years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
Objectives:	<p>The program's principal objective is to increase employment opportunities for the low-income population. The program will facilitate opportunities for access to the labor market through work training, counseling and modernization of the Dominican Republic's regulatory framework for labor. The specific objectives are to: (i) increase the employability of the beneficiaries, adapting the training to the labor demands of employers; (ii) assess the effectiveness of different job and training programs; (iii) establish an ongoing dialogue on policies to modernize the labor market; and (iv) strengthen SET in order to increase the effectiveness of its policies and programs.</p>	
Description:	<p>The Dominican Republic's labor market features a low participation rate, short-term unemployment, and highly informal job-search networks. The main objective of the project, to increase the employability of its beneficiaries, will be realized to the degree that SET, along with the job and training services it coordinates, becomes more effective, bringing together labor supply and demand in a more efficient way.</p>	

The program is directed at a target population distinct from that currently served by traditional training. The beneficiaries are concentrated in the lower income deciles and among individuals with less than secondary education, with special emphasis on young women. This population suffers from special problems of integration in the labor market, and they are not the focus of any type of existing program. With regard to services, the intention is to institute activities that will facilitate quicker integration in the labor market. This, along with increasing the coverage of these services, will make it possible to establish formal networks to bring together labor supply and demand. In terms of job training activities, the goal is to introduce means of providing training services oriented to the demands of employers.

For SET, the project is an important opportunity to take a more active role in developing policy for training, modernizing labor regulations and stimulating employment, thus forging stronger links with employers and workers in the area of employment and competitiveness. Training providers will compete for funds under transparent criteria that link supply with demand, making training services compatible with cost efficiency criteria and with criteria meant to ensure that the courses meet the demands of the market. For the Bank, the project represents an opportunity to develop recommendations on public policy on the efficient functioning of the training sector. These recommendations will be based on empirical results, which can be fully verified at the conclusion of the program.

The program consists of the following components: (i) job training and counseling component (US\$14.1 million); (ii) labor modernization (US\$300,000); and (iii) institutional strengthening (US\$4.7 million).

The Bank's country and sector strategy:

This program is consistent with national and Bank strategies (GN-1958-1). The government's development strategy focuses essentially on (i) maintaining macroeconomic stability; (ii) reactivating productive sectors; and (iii) increasing social equity. The program is consonant with the government's strategy for increasing social equity, promoting human capital, and facilitating integration in the labor market.

The Bank's strategy for the job training sector (CP-1637) specifies in its general principles the inclusion of vulnerable groups in training activities. The program in turn reinforces

the need to assess different alternatives and programs in order to bring about changes in the existing labor supply and encourage the expansion of initiatives with the greatest impact and that are most cost efficient.

Environmental and social review:

CESI recommended that the social impact analysis play an integral part in the development of the project, and determined at its May 10 meeting that calls for bids for training courses and internships should include environmental factors, as well as standards on work safety and health, in accordance with international standards. These elements are included in the program's technical and operating regulations.

Benefits:

Work is the essential asset of the poorest population groups. To the extent that labor structure demand generates very low returns for the most disadvantaged workers, both unemployment and leaving the work force affect low-income groups. In this sense, underutilization of the work force is one of the fundamental problems faced by any strategy directed at overcoming poverty. Though overall as well as youth unemployment rates in the Dominican Republic are on par with average rates in the region, the participation rate in the work force is very low. Consequently, nonemployment rates significantly exceed rates in countries with similar conditions.

The impact of the program depends on the way in which activities such as short-term training courses, improvements in job counseling services, and labor intermediation change the structure of incentives and restrictions that these groups face and that result in nonemployment. It is anticipated that the beneficiaries will experience shorter terms of unemployment, longer employment periods and higher wages.

Risks:

Institutional and financial sustainability. The program seeks to establish a new mechanism for providing training services, which will also serve a different target population from that served today. The ability of the program to continue in the future will depend on its success in creating a consensus among the players in the sector on the need for changes in the way services are financed and provided. The project envisages independent impact assessment, so as to nurture a process of dialogue with the training sector on policy issues. The results of the assessments will not only make it possible to evaluate the impact of the program, but will also provide an important case study for the process of dialogue on improvements and reform to the training and employment system. SET will coordinate this dialogue, and participants will include the

system's main players: (i) in the private sector, (ii) private providers; and (iii) public providers (INFOTEP, technical institutes), among others.

Institutional ability to execute the program. The executing agency, SET, has not executed any program of this scope in the past, and it is therefore essential to provide support so that it can familiarize itself with the Bank's procedures. In order to enhance its ability to execute the program, a number of activities are anticipated, some in connection with the design and scope of the program, others involving collaboration during execution. The scope of the program has been adapted to increase the viability of execution. Similarly, the program design includes practical training workshops on project execution. The team, in conjunction with international consultants, will provide training for SET to enable it to set the program in motion. The strengthening activities are of various types. During the first three months of the program, there will be practical training specific to the execution of the program. During the following 15 months, there will be institutional strengthening work to enhance the ability of SET to analyze and develop policies and to establish an ongoing policy dialogue with the main players in the labor market.

Special contractual conditions:

Conditions precedent to the first disbursement

- (a) Evidence that the technical executing unit has been formed and that it has the staff agreed upon with the Bank (paragraph 3.20, Table III-2).
- (b) The form for the selection of beneficiaries has been submitted for the Bank's approval (paragraph 3.20, Table III-2).
- (c) The terms of reference for the outside evaluators of job training and counseling activities and the bidding documents for contracting outside evaluators have been submitted for the Bank's approval.
- (d) Evidence that consulting for the design of the data processing software has been carried out (paragraph 3.20, Table III-2).
- (e) Evidence that the campaign to publicize the training and modernization components of the program has been carried out (paragraph 3.20, Table III-2).

Poverty targeting and social classification:

This operation qualifies as a project targeted to reducing poverty and increasing social equity, as described in the key objectives for the Bank's activities contained in the report on the Eighth Replenishment.

Exceptions to Bank policy:

None

Procurement:

The program does not envisage civil works construction. Bank procedures will be followed for the procurement of related goods and services, paying for consulting services and contracting for courses. In order to streamline execution and taking into account the nature of the courses that will be contracted, it is recommended that (i) there be international competitive bidding in the case of contracts for courses costing more than US\$350,000 and for goods costing more than US\$200,000; (ii) that the Bank's prior approval be required only for contracts for courses costing more than US\$300,000, for services costing more than US\$25,000 in the case of individual consultants and US\$100,000 in the case of consulting firms, and for procurement of related goods and services costing more than US\$200,000. The relevant documents in situations involving less than the amounts indicated will be reviewed by ex post sampling. Independent of these provisions, and taking into account that this is the first time that this type of program is being executed in the country, it is recommended that the Bank review the documentation relating to the initial bidding processes for each of the categories mentioned above.